

## **ECONOMIC OUTLOOK**

The following sections review the U.S. and Albuquerque MSA economies as of October 2003 when the Five-Year Forecast was prepared. The forecasts have not changed substantially, though employment growth has continued to be lower than anticipated and actual employment growth for 2003 was reduced. For the Albuquerque MSA employment growth for 2003 was anticipated to grow at 1.5%, but as benchmarked by the Bureau of Labor Statistics, growth was only 0.6%. The concern is that employment as an indicator of economic activity is a primary factor in estimating GRT revenue. GRT revenue has been strong, and the disconnect between the growth in employment and the growth in GRT is larger than at any time in the past 15 years. The Bureau of Business and Economic Research has not yet provided a forecast that includes the new benchmarked data released March 12, 2004.

### **NATIONAL ECONOMY AND KEY POINTS FROM THE GLOBAL INSIGHT OUTLOOK**

The national economy has been growing slowly following the recession in 2001. There has not been an upsurge in growth as there frequently is following a recession. The most disappointing factor is that employment at the national level has not grown. The economy continues to lose jobs. The third quarter of 2003 shows some promise with a 7% increase in GDP and increases in employment, including revisions to past month's losses. Although encouraging, GDP will not continue at near this rate, which was spurred in part by tax cuts. The third quarter of 2003 was not included in the forecast, but looking at the November forecast, Global Insight (GI) adds little to their October baseline forecast, which is the source for this document. Global Insight sees relatively slow growth and doesn't expect the Federal Reserve Board (FRB) to increase rates until summer 2004. The FRB indicates that inflation is still very low, productivity is high and that the risks still lean toward expanding output.

GI also presents risks to the forecast in the form of optimistic and pessimistic scenarios. The pessimistic scenario, assigned a probability of 20%, assumes that the economy continues to grow, but unemployment continues to increase, hitting a high of 6.6% at the end of FY/06. OPEC is assumed to be able to cut production even with weak demand and hold oil prices at about \$25, three dollars above the baseline. Finally, the FRB holds interest rates down for a longer period of time. The optimistic scenario, assigned a probability of 20%, has stronger growth driven by expanded exports and increased spending by state and local governments. These scenarios are included in the revenue forecast in the Alternative Scenarios section.

### **Gross Disposable Product (GDP)**

GDP was negative for the second and third quarters of calendar year 2001 and FY/02 only had growth of 0.8%. In FY/03 the economy rebounded slowly to post 2.5% growth. Growth increases to 3.5% in FY/04. There is no real upward bounce as the economy comes out of this slowdown. FY/05 has strong growth of 4.1%, and then slowly tapers off to 3.2% in FY/08.

### **Employment and Productivity**

As the economy moved into recession, unemployment jumped from the historically low rates of around 4% experienced from FY/99 to FY/02. Unemployment averaged 5.5% in FY/02 and 5.9% in FY/03. As employment has failed to increase we see a continued increase in unemployment to 6.2% in FY/04. Unemployment rates fall, but slowly and not by much; FY/08

is 5.7%. This is high compared to the 4% of the near past, but closer to what many economists believe is a sustainable unemployment rate.

Employment growth slowed in FY/01 to 1.3%. In FY/02 employment suffered a decline of 1% and an additional loss of 0.5% in FY/03. Growth in employment remains low, with 0.1% growth in FY/04. Finally the expansion begins to generate jobs with growth of 2.2% in FY/05 and 2.0% in FY/06. In FY/07, growth slows to 1.7% and 1.3% in FY/08. Growth in GDP is driven more by productivity than employment growth.

## **Inflation**

As measured by the consumer price index for urban consumers, inflation was 3.4% in FY/01. With the weak economy, inflation declined to 1.8% in FY/02. Moderate increases of 2% to 2.5% per year are expected for the remainder of the forecast period. Inflation is held in check, as there is little wage pressure as employment grows slowly and productivity increases hold costs down.

## **Interest Rates**

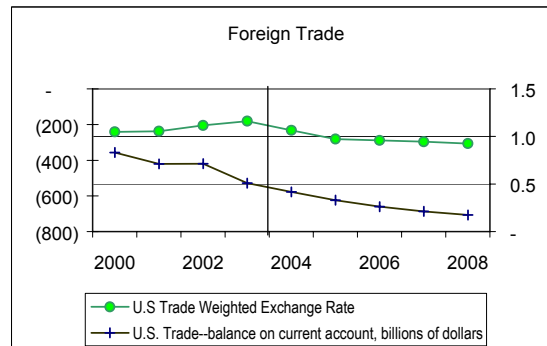
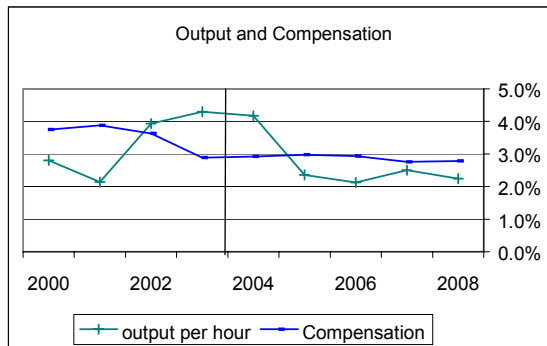
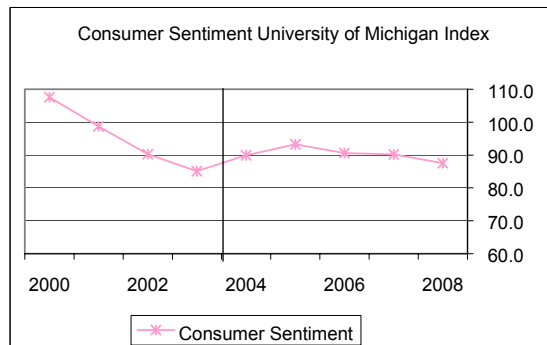
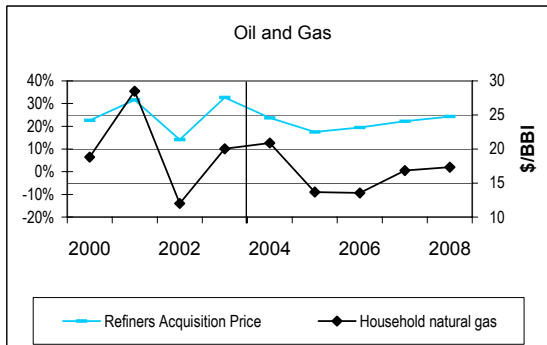
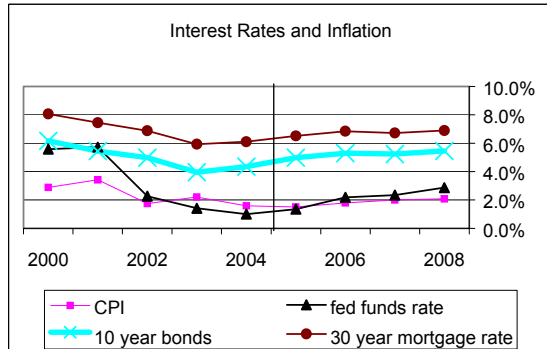
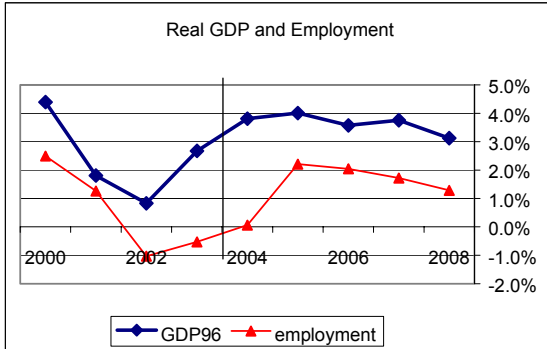
The Federal Reserve Board (FRB) has cut rates to the lowest level since the 1960s. The Federal Fund Rate declined from 6.5% in FY/01 to 1.00% in FY/03. The forecast has the rate staying at this low level until the summer of 2004 when the FRB is projected to increase rates. After remaining at 1% for FY/04 rates slowly increase, being only 1.4% in FY/05 and reaching a long-term rate approaching 3% in FY/08. Long-term rates as measured by 10-year treasury bonds reach a low of 4% in FY/03 and 4.4% in FY/05. Mortgage rates as measured by 30 year commitment rates reported by Freddie Mac reach a low of 5.9% for FY/03, but edge up only slightly to 6.1% in FY/04 and edge up to 6.9% in FY/08. This measure of mortgage rates stood at 8.1% in FY/00.

## **World Economy**

GI believes that the world economy will have a U.S. led rebound. This will occur over the next several quarters. Even so the Eurozone and Japanese recoveries will be hampered by structural economic problems, political gridlocks and institutional constraints that will lead to a sub par recovery outside the U.S. The current account trade balance continues to increase. Currently at 5% of GDP this exceeds the high levels experienced in the 1980s when the trade account was only 3% of GDP. The dollar will show declines relative to other currencies; the question is how much and how fast. GI shows moderate decline and continued increases in the size of the current account trade balance.

# U.S. ECONOMIC VARIABLES AND FORECAST (FISCAL YEAR)

## October 2003 Baseline Forecast



## ALBUQUERQUE ECONOMY

The slowdown of the national economy has affected Albuquerque. The unemployment rate increased from around 3% in FY/01 to 5.1% in FY/02 and FY/03. Even so, this was better than the U.S. economy. Employment in Albuquerque did not grow in FY/02 and in FY/03 growth is projected at 0.4%.

The classification of industries has changed with a movement from the Standard Industrial Classification (SIC) code system to the new North American Industrial Classification System (NAICS). This system provides a framework for classification of industries that is the same for all of North America and updates some of the definitions for newer industries. While the largest sectors in the Albuquerque economy were trade (retail and wholesale) and services under the SIC definition, these sectors were broken up and the distinctions are now quite different. For instance, retail trade under the SIC classification included eating and drinking establishments. The "eating and drinking" category is now included in the hospitality sector that also includes hotels (this was in the service sector under SIC code). A table at the end of this section provides sector employment numbers for FY/99 to FY/08 by the NAICS categories.

**Trade Transportation and Utilities.** This sector increased only 1.5% on average in the last decade. In fiscal year 2002 sector employment declined by 1.8% and increased by only 0.9% in fiscal year 2003. Retail food store employment has suffered, and the local electric and gas utility laid off approximately 75 workers in the area. Retail trade seems to be experiencing a consolidation with expanding big stores, allowing fewer employees to provide sales service. The forecast has moderate growth in this sector; FY/04 grows at 1.8%, FY/05 at 2.2% and then tapering off to 0.8% in FY/08

**Manufacturing.** This sector accounted for 8.5% of employment in 1993 declining to 6.7% in FY/03. Employment peaked in FY/98 at 28,242, declining to 24,392 in FY/03, a loss of 3,850 jobs. Still the manufacturing sector has held up better in Albuquerque than it has in the U.S. economy. These job losses were due first to the Asian financial crisis of 1998, which hit telephone manufacturing and hurt the local employment of Motorola and Philips. Motorola sold what little manufacturing capacity it had left in 1999 and Philips closed its plant in October 2003. Intel, after expanding in 1995, has held employment rather constant despite a \$2 billion expansion in 2002. After employment declines of 8.9% in FY/02 and 4.2% in FY/03, an additional decline of 0.2% is forecast for FY/04. In FY/05 growth is 3.2% increasing to 5.1% and 5.2% in FY/06 and FY/07. This growth is largely driven by an addition of 2,000 jobs for Eclipse Aviation. In FY/08 jobs decline by 0.2%.

**Educational and Health Services.** Albuquerque is a major regional medical center. Presbyterian Hospital and its HMO are one of the largest employers in the area. This is one of the fastest growing categories in the MSA economy. In the past 10 fiscal years this sector had average growth of 4.2%. In FY/02 and FY/03 growth was 6.3% and 5.7% respectively. Much of this growth is due to a change in Medicare policy that allows payment for home healthcare. The forecast estimates growth of 2.9% in FY/04, then averages 3.7% for the remainder of the forecast.

**Leisure and Hospitality.** This category includes eating and drinking establishments as well as hotels and other tourist related facilities. Growth was only 1.3% in FY/03 but FY/04

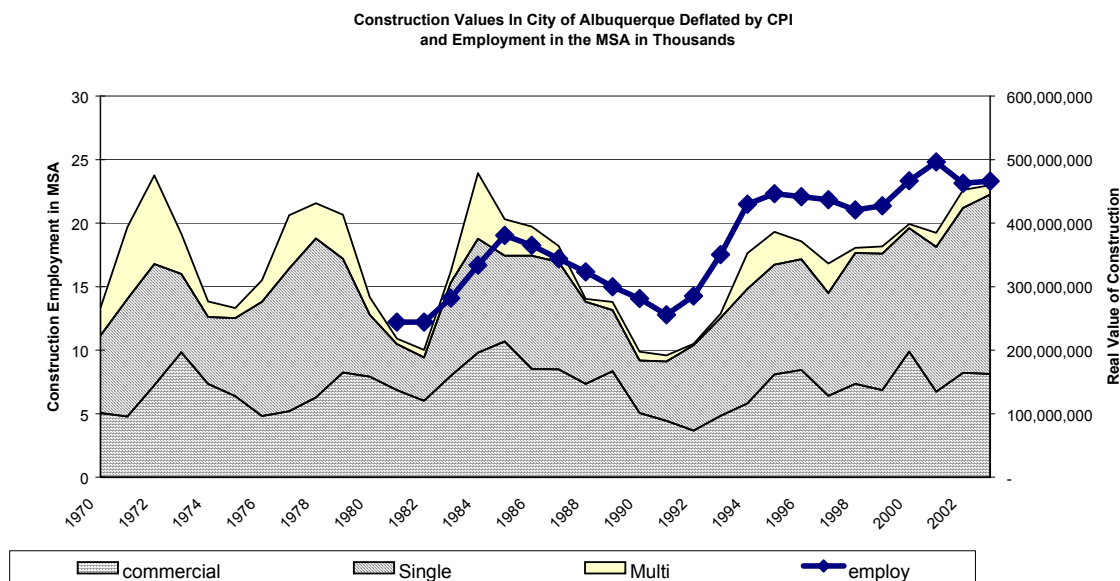
anticipates growth of 3.9% driven in large part by eating and drinking establishments. The gross receipts for eating and drinking establishments grew at much faster rates- FY/00 grew at 12% with growth slowing to 6.4% in FY/01, 7.6% in FY/02, and 4% in FY/03. The hospitality industry is important to Albuquerque. Albuquerque has benefited from the interest in the Southwest and from efforts to promote the City and to attract major conventions to the Convention Center. Since 1995 the stock of hotel rooms in the City has increased significantly with over 3,400 additional hotel and motel rooms being permitted. The number of hotel rooms in Rio Rancho has also increased. A good measurement of this sector is the growth in Lodgers' tax. In the early 1990s lodgers' tax had growth of over 10%. This has slowed dramatically since 1995. In 2002 following September 11<sup>th</sup> terrorist attacks and the downturn in the economy travel for business and pleasure slowed, and lodger's tax revenues declined. In fiscal year 2003 revenues increased only 0.5%.

**Financial Activities.** This sector includes finance and insurance including credit intermediation. The sector increased employment by an average of 2% per year, despite consolidations in the banking industry and a 2.7% decline in FY/02. The sector was buoyed by strong growth in the insurance carrier industry. This includes about 500 jobs created in 2002 and 2003 by Blue Cross. The forecast anticipates a loss of 0.2% in FY/04 followed by growth of around 2% in the remainder of the forecast.

**Professional and Business Services.** This sub-sector includes temporary employment agencies and some of Albuquerque's back-office operations. It also includes Sandia National Labs (SNL). This sector had average annual growth of 3% in the past decade, but suffered declines of 2.1% and 0.2% in fiscal years 2002 and 2003 respectively. For the subsector professional, scientific, and technical service the New Mexico Department of Labor (NM DOL) shows increases of 600 jobs during the year ending September 2003. A large source of these increases is hiring at SNL. The forecast for this category has average growth of 3% for FY/04 to FY/08.

**Information.** This sector includes businesses in publishing, broadcasting, telecommunications, and internet service establishments. This sector had average annual growth of 7.4% in the past decade, even with a decline of 6.7% in fiscal year 2003. This decline is related to the national decline in internet and telecommunications. Growth in this sector is limited to 1.2% in FY/04, rebounding up to growth of around 3% for the next three years ending the forecast with a jump to 5.1% in FY/08.

**Construction.** Construction is typically cyclical, with large swings in building and employment. The following chart shows the real value of single-family, multi-family, and non-residential new permits from 1962 to 2000 (deflated by the CPI; 100=1982-84). Four distinct peaks occur in 1973, 1979, 1985 and 1995. The decline from the 1995 peak has been minimal and the real value of construction has exceeded this level. This increase is driven primarily by residential construction. Commercial construction in real terms has remained relatively flat. In the past the cycles were accentuated by large buildups of multi-family housing, in part, to capture tax breaks that are no longer available. After overbuilding, vacancy rates would increase dramatically and apartment building would cease for several years. Since 1995, single-family construction has made up a larger share of total construction and multi-family construction has remained subdued. The number of permits issued for single-family construction is set for another record year in 2003.

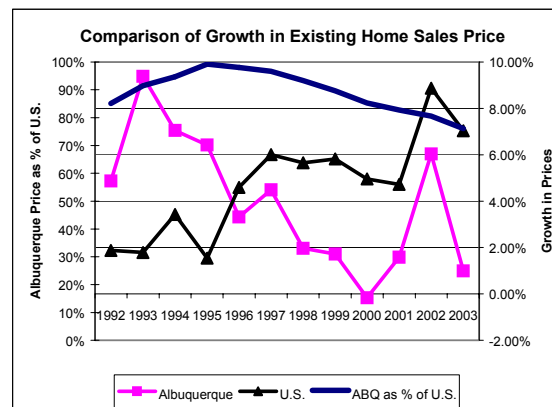
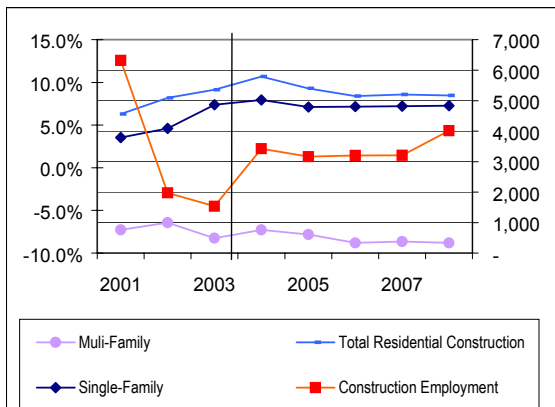
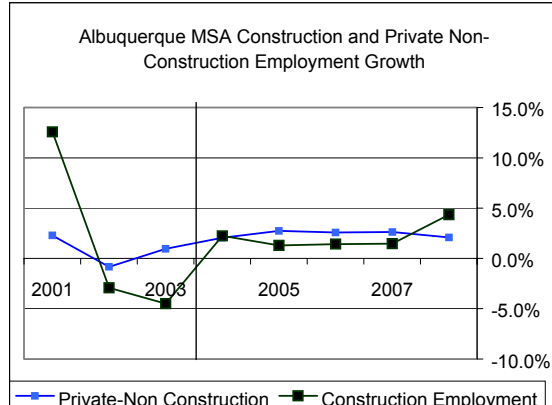
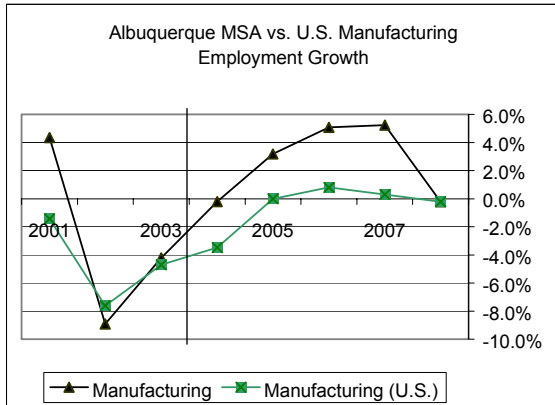
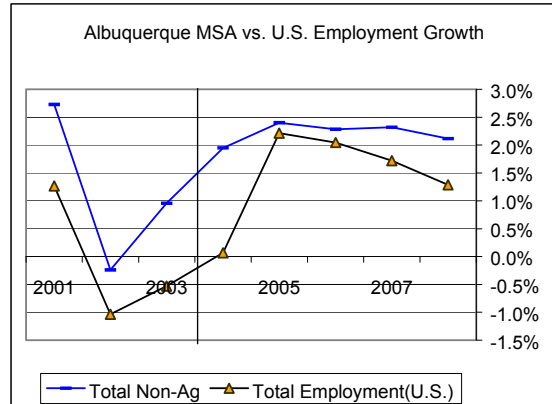
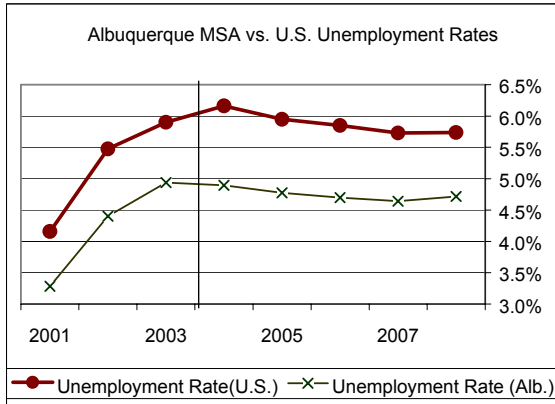


Employment in the construction sector was very strong in 2000-2002, driven in large part by the Intel project and the Big-I reconstruction project. The Big-I was completed ahead of schedule in June, 2002, and the Intel project was also finished in June, 2002. As these jobs were lost we saw a reduction in employment in FY/02 and some additional losses in FY/03. BBER forecasts a reduction of 3.5% in FY/03, for a loss of 1,700 jobs from FY/01 to FY/03. There were around 3,000 jobs in the Big I and Intel projects at peak. Even so, recent information from the NM DOL shows increases in employment of 1,400 jobs in the year ending September 2003. The City information on permits does not include several important measures of construction. It does not include projects built by the State of New Mexico, the federal government, construction of roads, or water/sewer systems. All of these projects do generate gross receipts.

# LOCAL ECONOMIC VARIABLES HISTORY AND FORECAST

## By Fiscal Year

Albuquerque MSA Employment in Thousands  
by NAICS Sectors



## EMPLOYMENT BY SECTOR

| Fiscal Year  | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    | Growth<br>1999<br>to<br>2003 | Growth<br>2003<br>to<br>2008 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------------------|------------------------------|
| Total Nonagricultural                              | 340.192 | 349.425 | 358.950 | 358.092 | 361.508 | 368.554 | 377.395 | 386.011 | 394.955 | 403.309 | 1.5%                         | 2.2%                         |
| Natural Resources And Mining And<br>Construction   | 20.817  | 21.992  | 24.758  | 24.033  | 22.950  | 23.462  | 23.765  | 24.104  | 24.459  | 25.522  | 2.5%                         | 2.1%                         |
| Manufacturing                                      | 26.708  | 26.792  | 27.959  | 25.467  | 24.392  | 24.344  | 25.117  | 26.391  | 27.774  | 27.715  | -2.2%                        | 2.6%                         |
| Computer And Electronics<br>Manufacturing          | 11.525  | 11.450  | 12.350  | 11.242  | 10.425  | 10.039  | 9.848   | 9.962   | 10.079  | 10.365  | -2.5%                        | -0.1%                        |
| Trade Transportation And Utilities                 | 65.174  | 65.208  | 66.100  | 64.883  | 65.483  | 66.658  | 68.119  | 69.027  | 69.994  | 70.523  | 0.1%                         | 1.5%                         |
| Wholesale Trade                                    | 13.700  | 13.733  | 13.975  | 13.500  | 13.308  | 13.621  | 13.828  | 13.970  | 14.085  | 14.142  | -0.7%                        | 1.2%                         |
| Retail Trade                                       | 40.608  | 40.425  | 41.300  | 41.025  | 41.892  | 42.625  | 43.738  | 44.391  | 45.129  | 45.504  | 0.8%                         | 1.7%                         |
| Transportation, Warehousing, And<br>Utilities      | 10.867  | 11.050  | 10.825  | 10.358  | 10.283  | 10.412  | 10.553  | 10.666  | 10.781  | 10.878  | -1.4%                        | 1.1%                         |
| Information  | 9.617   | 10.875  | 11.233  | 11.400  | 10.642  | 10.769  | 11.137  | 11.472  | 11.806  | 12.408  | 2.6%                         | 3.1%                         |
| Financial Activities                               | 19.000  | 19.483  | 19.567  | 19.034  | 19.150  | 19.113  | 19.500  | 19.947  | 20.280  | 20.703  | 0.2%                         | 1.6%                         |
| Professional And Business Services                 | 54.650  | 57.434  | 58.584  | 57.375  | 57.283  | 58.776  | 60.542  | 62.192  | 64.070  | 66.123  | 1.2%                         | 2.9%                         |
| Professional, Scientific And<br>Technical Services | 25.917  | 26.592  | 26.859  | 26.942  | 27.375  | 28.237  | 28.868  | 29.465  | 30.057  | 30.589  | 1.4%                         | 2.2%                         |
| Management Of Companies And<br>Enterprises         | 4.633   | 4.450   | 4.617   | 4.425   | 4.200   | 4.377   | 4.512   | 4.622   | 4.804   | 5.090   | -2.4%                        | 3.9%                         |
| Admin. & Support Serv. waste Mgt<br>& Remediation  | 24.100  | 26.392  | 27.109  | 26.008  | 25.708  | 26.162  | 27.162  | 28.105  | 29.209  | 30.445  | 1.6%                         | 3.4%                         |
| Educational And Health Services                    | 35.567  | 36.975  | 37.942  | 40.350  | 42.667  | 43.900  | 45.611  | 47.202  | 48.957  | 50.810  | 4.7%                         | 3.6%                         |
| Leisure And Hospitality                            | 31.884  | 32.542  | 33.667  | 34.092  | 34.767  | 36.060  | 36.761  | 37.489  | 38.069  | 38.580  | 2.2%                         | 2.1%                         |
| Food Services And Drinking<br>Places               | 24.417  | 25.133  | 25.950  | 26.475  | 26.900  | 27.958  | 28.411  | 28.951  | 29.669  | 30.264  | 2.5%                         | 2.4%                         |
| Other Services                                     | 10.750  | 10.792  | 11.008  | 11.250  | 11.967  | 12.234  | 12.506  | 12.761  | 13.019  | 13.253  | 2.7%                         | 2.1%                         |
| Government   | 66.025  | 67.334  | 68.133  | 70.208  | 72.208  | 73.239  | 74.339  | 75.426  | 76.527  | 77.673  | 2.3%                         | 1.5%                         |
| Local Government                                   | 30.917  | 31.492  | 32.200  | 33.817  | 35.125  | 35.482  | 36.186  | 36.901  | 37.627  | 38.364  | 3.2%                         | 1.8%                         |
| State Government                                   | 21.209  | 21.817  | 22.233  | 22.559  | 23.108  | 23.862  | 24.119  | 24.518  | 24.880  | 25.278  | 2.2%                         | 1.8%                         |
| Federal Government                                 | 13.900  | 14.025  | 13.700  | 13.834  | 13.975  | 13.896  | 14.033  | 14.008  | 14.020  | 14.032  | 0.1%                         | 0.1%                         |
| Military Employment, Thousands                     | 6.784   | 6.575   | 6.407   | 6.369   | 6.388   | 6.493   | 6.557   | 6.532   | 6.523   | 6.513   | -1.5%                        | 0.4%                         |



## **REVISED FY/04 AND PROPOSED FY/05 REVENUE PROJECTIONS**

The General Fund revenue projections are summarized in the two tables included in this section. The first table, General Fund Revenue and Growth by Major Category, presents growth rates with the most recent estimates. The second table, General Fund Revenues, presents comparisons of the current revenue estimates by major revenue source. For FY/03 the actual results are reported. FY/04 includes revenues from the approved budget, the estimate in the Five-Year Forecast and estimated actuals. FY/05 reports the revenue estimates from the Five-Year Forecast and the proposed budget. Many of the revisions to the earlier revenue estimates were made in light of changes in actual receipts.

### **REVISED FY/04 REVENUE ESTIMATES**

Total General Fund revenues for FY/04 are anticipated to be \$361.5 million or \$28.6 million above FY/03. This is an increase of 8.6% over FY/03 and is \$11.9 million above the approved FY/04 budget. The strong growth is the result of several items. The increase above the approved budget is due to stronger than expected gross receipts tax revenue, stronger construction related revenues and the industrial revenue bond (IRB) settlement. The shift of one mill in property tax authority to operations also adds to the strong growth. Non-recurring revenues are estimated at \$8.1 million. This includes \$4 million in GRT revenue from enhanced compliance efforts at the State and \$2.2 million from the IRB settlement.

### **PROPOSED BUDGET REVENUE ESTIMATES FOR FY/05**

Estimated total General Fund revenues for FY/05 are \$393 million representing growth of 8.7% or \$31.6 million above the revised FY/04 estimate. Gross receipts tax revenues increase by \$32.8 million, including \$27.6 million from the quarter cent public safety tax. Non-recurring revenues are \$2.7 million primarily from the quarter cent transportation tax transfer and additional one-time GRT revenue. Recurring revenues are \$390.4 million, an increase of 10.5% above the revised FY/04 estimate. Details by category are discussed in the following text.

### **GROSS RECEIPTS TAX REVENUES**

Gross Receipts Tax after experiencing weak growth of 0.2% in FY/02, increased by 4.6% in FY/03. FY/04 revenues in the Five-Year Forecast were adjusted up to reflect the increase in FY/03 as well as an increase in growth based on actual receipts. The growth experienced in the first half of the fiscal year in gross receipts revenue far exceeds what the underlying economy would generate. In the first seven months of the fiscal year revenues were up by 8.7% though the largest distribution of the year for December activity was up only 1.7%. The forecast for FY/04 is estimated at \$249.2 million with growth of 5.6%. It is estimated that about \$4 million of this revenue is non-recurring. The recurring growth rate for FY/05 is 3.4%, but after taking out the large non-recurring portion the growth rate is only 2.1%. Additionally, the new quarter cent public safety tax goes into effect on July 1, 2004. This will yield eleven months of revenue to the City estimated at \$27.6 million. Total GRT revenue is estimated at \$282 million.

The current forecast is based on econometric models, which take account of the impacts of economic conditions on gross receipts taxes. The Five-Year Forecast is based on the BBER's October 2003 forecast. Expected employment growth is very modest at best. For FY/04, employment growth in the Albuquerque MSA is estimated at only 1.9% and FY/05 at 2.4%. Recent benchmarking of employment numbers by the Bureau of Labor Statistics (BLS) shows that growth in Albuquerque was much slower than originally reported. Employment growth for FY/03 was only 0.4% and the first two quarters of FY/04 are only up 0.7%. While an improvement over FY/02 when employment declined 0.2%, the growth is far below what was expected. The manufacturing sector has continued to lose jobs. In calendar year 2003 manufacturing lost 1,200 jobs. This follows losses of 475 jobs in 2001 and 2,300 in 2002. A bright spot is construction; in calendar year 2003, 740 jobs were added.

The disconnect between GRT revenue growth and employment and economic growth is extreme. This leads to a concern that even more of the GRT is of a non-recurring nature.

**General Fund Revenue and Growth by Major Category**  
**In Thousands of Dollars**

| Category            | Actual<br>FY/03 | Change<br>FY/02 to<br>FY/03 | Estimated<br>Actual<br>FY/04 | Change<br>FY/03 to<br>FY/04 | Proposed<br>FY/05 | Change<br>FY/04 to<br>FY/05 |
|---------------------|-----------------|-----------------------------|------------------------------|-----------------------------|-------------------|-----------------------------|
| Gross Receipts Tax  | 236,013         | 4.6%                        | 249,230                      | 5.6%                        | 282,043           | 13.2%                       |
| Local Taxes         | 39,568          | 7.8%                        | 47,627                       | 20.4%                       | 48,726            | 2.3%                        |
| Licenses & Permits  | 12,279          | 42.1%                       | 12,398                       | 1.0%                        | 12,017            | -3.1%                       |
| Intergovernmental   | 4,521           | -7.0%                       | 5,036                        | 11.4%                       | 5,290             | 5.0%                        |
| Charges for Service | 17,074          | 8.8%                        | 17,075                       | 0.0%                        | 16,308            | -4.5%                       |
| Intra-City          | 20,696          | -1.2%                       | 23,755                       | 14.8%                       | 24,075            | 1.3%                        |
| Miscellaneous       | 1,249           | -20.9%                      | 4,147                        | 231.9%                      | 2,498             | -39.8%                      |
| Transfers           | 1,509           | -56.1%                      | 2,219                        | 47.1%                       | 2,126             | -4.2%                       |
| <b>Total</b>        | <b>332,909</b>  | <b>4.8%</b>                 | <b>361,487</b>               | <b>8.6%</b>                 | <b>393,083</b>    | <b>8.7%</b>                 |
| Non-Recurring       | 3,200           | -1.6%                       | 8,114                        | 153.6%                      | 2,686             | -66.9%                      |
| Recurring Revenues  | 329,709         | 4.9%                        | 353,373                      | 7.2%                        | 390,397           | 10.5%                       |

**General Fund Revenues**  
**In Thousands of Dollars**

| Category                           | Actual<br>FY/03 | Approved<br>Budget<br>FY04 | Five Year<br>Forecast<br>FY/04 | Estimated<br>Actual<br>FY/04 | Five -Year<br>Forecast<br>FY/05 | Proposed<br>Budget<br>FY/05 |
|------------------------------------|-----------------|----------------------------|--------------------------------|------------------------------|---------------------------------|-----------------------------|
| GRT                                | 236,013         | 240,059                    | 249,230                        | 249,230                      | 282,043                         | 282,043                     |
| Property Tax                       | 16,498          | 24,316                     | 24,316                         | 24,316                       | 25,046                          | 25,046                      |
| Franchise                          | 17,457          | 16,303                     | 17,019                         | 17,249                       | 17,166                          | 17,423                      |
| Pilot                              | 5,613           | 6,062                      | 6,062                          | 6,062                        | 6,274                           | 6,257                       |
| Building Permits                   | 9,617           | 7,794                      | 9,617                          | 9,617                        | 9,135                           | 9,177                       |
| Permits                            | 2,662           | 2,591                      | 2,747                          | 2,781                        | 2,857                           | 2,840                       |
| Intergovernmental Assistance       | 4,521           | 5,050                      | 5,050                          | 5,036                        | 5,151                           | 5,290                       |
| Charges for Services               | 17,074          | 17,819                     | 18,298                         | 17,075                       | 16,477                          | 16,308                      |
| Internal Services                  | 1,330           | 1,183                      | 1,108                          | 1,071                        | 1,183                           | 1,071                       |
| Indirect Overhead                  | 13,282          | 14,791                     | 14,396                         | 14,396                       | 14,396                          | 14,189                      |
| CIP Funded Positions               | 6,084           | 9,056                      | 9,204                          | 8,288                        | 9,309                           | 8,815                       |
| Fines                              | 44              | 55                         | 55                             | 5                            | 32                              | 5                           |
| Interest Earnings                  | 746             | 1,300                      | 1,000                          | 1,000                        | 1,900                           | 1,900                       |
| Miscellaneous Revenues             | 460             | 880                        | 2,996                          | 3,142                        | 467                             | 593                         |
| Inter-fund Transfers               | 1,509           | 2,307                      | 2,307                          | 2,219                        | 2,626                           | 2,126                       |
| <b>Total General Fund Revenues</b> | <b>332,909</b>  | <b>349,566</b>             | <b>363,405</b>                 | <b>361,487</b>               | <b>394,062</b>                  | <b>393,083</b>              |
| Non-Recurring                      | 3,200           | 3,251                      | 9,021                          | 8,114                        | 3,692                           | 2,686                       |
| Recurring                          | 329,709         | 346,315                    | 354,384                        | 353,373                      | 390,370                         | 390,397                     |

## OTHER REVENUE SOURCES

Property Tax. Revenues in FY/03 were \$16.5 million. Beginning in FY/04 one mill of property tax levy was moved from the capital program to the operating program. This additional mill and growth in the base is expected to generate \$24.3 million in FY/04 and with growth of 3%, an increase to \$25 million in FY/05.

Franchise Tax. Franchise revenues totaled \$17.5 million in FY/03 and are expected to be \$17.25 million in FY/04. The primary source of decline is due to the one-time cable franchise revenue of \$1.1 million in FY/03. Also, growth is limited by a 4% electric rate reduction that went into effect in September 2003, and continued weakness in telecommunications. These weaknesses are offset in large part by rapid growth in natural gas and cable. In FY/03 the natural gas franchise had a full year at the new rate of 3% and high natural gas prices also increased the base. In FY/05 growth is estimated at 1% in total. Natural gas prices are expected to be slightly lower and electricity grows at 2%. The telephone franchise is expected to remain soft with competition from wireless continuing to eat into the market. The FY/05 estimate is \$257 thousand above the Five-Year Forecast due to the expectation that natural gas prices will be higher than expected when the Five-Year Forecast was prepared.

PILOT. Payments in lieu of taxes increase generally due to increased revenue collection and property valuations. For FY/04 PILOT growth is estimated at 8% and 3% in FY/05. Growth in FY/05 is limited by the creation of the Water Authority, where PILOT, based on the Water Utility Authority proposed budget, was limited to a 4% franchise fee only.

Licenses and Permits. Building permit inspection revenues in FY/03 increased due to an average increase in permit fees of 30% and growth in construction. The FY/04 budget anticipated a decline in revenues, but construction activity has remained strong. The FY/04 estimate was increased to the level of FY/03 in the Five-Year Forecast. Revenues are expected to decline as interest rates increase and the single family market softens in FY/05. For FY/05, permit revenues are anticipated to decline about 5% or \$440 thousand.

Other licenses and permits brought in \$2.6 million in receipts in FY/03. FY/04 revenues show a modest increase and are estimated at \$190 thousand above the approved budget. In FY/05, revenues are relatively flat with a gain of only \$59 thousand.

Intergovernmental Assistance. In FY/04, revenues are expected to be \$515 above revenues in FY/03. This is due to revenues from the state shared corrections fees and the better than expected revenues from the state shared vehicle excise taxes. In FY/05 the growth of \$254 thousand is primarily due to a full year of the corrections fee. The other sources of revenue such as shared gasoline and cigarette taxes are expected to remain flat.

Charges for Services. Charges for services were \$17 million in FY/03 and in FY/04. Growth expected in the FY/04 approved budget was completely offset by the reductions in revenues from contracting out the management of the Convention Center and reduced visitation at the Zoo. There was some offsetting growth including childcare and Latchkey programs that had some fee increases as well as increasing in popularity, legal fees where filled positions reduced hiring of outside legal council for risk related cases and the museum where the popular French impressionist exhibit gave a large boost to revenues. In FY/05 revenues are expected to decline by \$767 thousand. Again the full year of Convention Center revenues is the source of the reduction at \$1.4 million. With most revenues remaining flat, increases at the Zoo for the opening of the Animals of Africa exhibit at \$283 thousand, increases in library services for \$217 thousand, legal fees at \$109 thousand, and \$158 thousand as league play for softball and baseball increase due to the closing of the Sportsplex.

Intra-City Charges. Intra-city charges include internal services, indirect overhead, and positions funded by the CIP program.

In FY/04, CIP funded positions are expected to bring in \$8.3 million. This is \$900 thousand below the approved budget, as some projects were not started as soon as expected. The reductions were primarily due to streets projects and special cultural projects such as Tingley Beach renovation. This has no net impact on the General Fund as there is an offsetting reduction in expenses. In FY/05, revenues are estimated at \$8.8 million. The increase is due to continuation of the work on Tingley Beach, the design and implementation of the 311 system, and the utility billing system.

Internal services revenue has declined as the City has chosen not to provide certain services. Office service charges now total about \$33 thousand per year. Building alteration charges were eliminated in FY/02. Engineering and inspection fees have declined from an average of \$1.5 million in the 1990s to \$175 thousand in FY/04 down \$55 thousand from FY/03. In FY/05 revenues are expected to equal FY/04 revenues.

Indirect overhead revenues increased in FY/04. Part of this is due to filling positions in enterprise funds that were vacant in FY/03. In FY/05, indirect overhead revenue is expected to decline by \$207 thousand primarily due to a \$180 thousand reduction in the indirect overhead paid by the Water Utility Authority. The creation of the Authority reduces some of the indirect services the City provides.

Miscellaneous Revenues. In FY/04, the largest source of miscellaneous revenue is \$2.2 million from an IRB settlement. Fines and forfeitures are expected to generate only \$5 thousand in FY/04 and in FY/05. Air quality penalties have dropped from around \$40 thousand per year to \$5 thousand. Nuisance abatement fines are receipts due to activities in Solid Waste on graffiti removal and are being directed to Solid Waste.

Estimated revenues from interest earnings in FY/04 are \$1 million down from the approved budget. FY/05 revenues are at \$1.9 million with expectations of increased interest rates and increases in the cash balances for the General Fund.

Inter-Fund Transfers. Incoming transfers from other funds in FY/04 are expected to be \$2.2 million. In FY/05 revenues are anticipated at \$2.1 million. Major changes include the loss of \$115 thousand due to the Water Utility Authority phasing out the funding of three positions in environmental services for groundwater monitoring, a new transfer of \$133 thousand from the Lodger's Tax fund for the tourism strategy and the reduction of \$242 thousand due to a one-time transfer in FY/04 from the City/County Projects fund.